FINANCE DEPARTMENT

OFFICE OF THE
DIRECTOR OF FINANCE

September 10, 2009

Elizabeth M. Murphy
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090.

RE: <u>Proposed SEC Rule 2a-7 File Number S7-11-09</u>
Money Market Fund Reform

To Whom It May Concern:

This letter officially documents comments and concerns of the City of Rocky Mount, North Carolina related to implementing the requirements of proposed Rule 2a-7. **<u>The proposed rule could potentially harm local governments willingness and ability to invest in money market funds as well as harm the ability of local governments to issue debt inexpensively in the short-term capital markets.</u>** Rocky Mount supports the overall goals of the money market reforms of requiring money market funds to shorten durations, improve liquidity, and to invest in higher quality securities. North Carolina local governments already have many of these features available to us through the state sanctioned North Carolina Capital Management Trust (NCCMT) and we think it would be beneficial to have these standards nationally as well. However, we are opposed to the provisions of Rule 2a-7 that require the use of floating Net Asset Values (NAV). We believe this requirement to be both unnecessary and detrimental to the interests of investors and issuers alike. Improvements to the duration, liquidity and quality of money market instruments are sufficient to establish the necessary reforms without removing the attractive features of a fixed NAV.

Rocky Mount, like many local governments is an investor in money market funds. Many local governments also are issuers of Variable Rate General Obligation Bonds, Certificates of Participation (COPs) and Variable Rate Demand Notes (VRDN's) that are widely purchased by money market funds. We believe Rule 2a-7 would discourage investing in money market funds.

Rocky Mount takes a safe and conservative approach regarding investments and like most local governments we are reluctant to invest in floating NAV money market funds, especially for short term investments. Local government investors place money in a money market fund to generate improved returns on protected principal. This is because in a rising rate environment, which is what we anticipate in the future, any investment placed in a floating NAV fund will be subject to market value losses as rates rise. Even when volatility is low, the local governments have to perform extra work to book the market changes that can be controversial, even if immaterial. Local governments use money market funds to get rates better than a CD or bank account with low risk and low administrative cost. The fixed NAV allows a return of the principal invested and makes calculating and booking asset gain and loss accrual entries unnecessarily. I anticipate that the administrative cost of recording gains and losses for floating NAV money market investments will exceed the amount of the actual entry. With added complexity and administrative cost, other investment options such as Treasury Bills or Federal Agencies appear more attractive than a money market fund. Investment in interest bearing bank accounts may be more attractive once the cost to invest and maintain the investment is considered. Money market investing is for short-term funds and local governments do not want to book market losses on tax dollars invested short-term.

If the SEC rule is approved as proposed and all such money market funds are required to go to a floating NAV, then investors are much more likely to place short term investments in CDs, interest bearing bank accounts or directly into very short term T-Bills. The money market funds are major players in the purchase of local government variable rate GO bonds, COPs and VRDN's. If the investors significantly reduce investing in these money market funds, this will lessen the assets the money market funds have to purchase variable rate local government debt. The lower demand will drive up the rates local governments pay on these issues and reduce the availability of this funding source. This will negatively impact local governments on both the revenue and expense sides of the business. If the other proposed steps to shorten allowed average maturity, restrict investments to higher quality instruments, and to improve oversight are implemented, then the counterproductive floating NAV should not be included in the rule.

Sincerely,

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Amy Staton, Director of Finance

Cc: Stephen Raper, City Manager City of Rocky Mount
Julie White, North Carolina League of Municipalities